

Chapter 13

Does economic inequality harm democratic quality? No, but yes

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Introduction

'Socioeconomic inequality has powerful direct and indirect effects on the quality of democratic governance.' This quote by Dietrich Rueschemeyer (2004: 84) captures the widely held view that a skewed wealth distribution is negatively associated with democracy. In their widely cited discussion of democratic quality, Larry Diamond and Leonardo Morlino (2004:, 27) approach the linkage from a similar point of view and argue that

while democracy does not demand a certain set of substantive social or economic policies, it does in practice presuppose a degree of political equality that is virtually impossible if wealth and status inequalities become too extreme.

These statements have strong roots in the history of political thought. Already Aristotle argued that the middle ground represented by a large middle class is preferable. Too much inequality would lead to instability, unreason, disobedience, and repression of the poor by the rich or vice versa. Jean-Jacques Rousseau envisaged that freedom is only possible when no one is sufficiently rich to buy another and no one sufficiently poor to be for sale, and Alexis de Tocqueville considered social equality as the very foundation for democracy. Finally, Karl Marx argued that 'bourgeois democracy' is merely a façade, where the state would ultimately protect the interests of the resourceful elite vis-à-vis the suppressed masses.

The issue continues to figure prominently in academic and public debates. A large number of studies have examined whether economic inequality influences democratic transitions or breakdowns (e.g., Acemoglu and Robinson, 2005; Ansell and Samuels, 2014; Boix,

2003; Houle, 2009; Przeworski et al., 2000) or the general level of democracy, looking at the whole continuum from full autocracies to advanced democracies (Bollen and Jackman, 1985; Knutsen, 2015; Muller, 1995). However, the relationship between economic wealth distribution and the degree of democraticness in countries with free, inclusive elections is underexplored. The question addressed in this chapter is therefore: Is increased economic inequality associated with lower democratic quality?

In our attempt to answer this question, we first make clear what we mean by economic inequality and democratic quality. We then identify theoretical arguments put forward in the more general literature and discuss their relevance for our research question. Subsequently, we employ new datasets from Solt (2020) and V-Dem (Coppedge et al., 2021) to examine the empirical association in a global analysis, spanning the period 1960-2020, based on a series of different specifications, including two-way fixed effects, and alternative inequality and democracy measures.

The results indicate that economic inequality, measured as income inequality, is not a robust predictor of democratic quality understood as the fulfilment of procedural-institutional criteria associated with polyarchy and liberal democracy. This is surprising given the strong arguments in favor of a substantial, negative relationship found in the literature and the fact that many public intellectuals assume the presence of a clear and inauspicious association.

However, we also consider the possibility that economic inequality affects democratic quality understood as *de facto* political equality (cf. Jensen and van Kersbergen, 2016: ch. 9). The findings indicate that income inequality is indeed a robust predictor of the political power distribution as well as electoral turnout.

We conclude that while there is little support for the expectation that economic inequality undermines democracy understood in a procedural-institutional fashion, the principle of political equality seems to be affected by economic disparities.¹

1 Kees would be happy about the focus on inequality and popular rule. However, he would be surprised not to see technological innovations as part of the research agenda. Moreover, he might be disappointed that Matilde did not insist on including benevolent dictators, and that Lasse did not insist on assessing feedback loops.

Conceptualizing economic inequality and democratic quality

Economic inequality concerns the ability of individuals (or families) to maintain a certain standard of living and lifestyle. In an equal society, there is not much deviation from the average individual (or family), meaning that if people are able to make similar choices about how to live their lives, we intuitively consider them as living in an equal society. In contrast, where people face very different prospects, we intuitively consider them as living in an unequal society (Jensen and van Kersbergen, 2016: 36). Our focus is on inequality in income rather than in wealth or land.

Democratic quality concerns the level of democracy within polities that fulfil the minimalist criteria Joseph A. Schumpeter (1942: 269) used to demarcate democracies from non-democracies. This means that we consider a polity democratic when the executive and legislative powers are based on the results of competitive multi-party elections, where the opposition has a meaningful chance of winning. Inspired by Robert A. Dahl (1989), we distinguish between democratic quality understood as the fulfilment of procedural-institutional features on the one hand and as substantive political equality on the other hand.

Regarding the first understanding, we use Dahl's concept of polyarchy, which adds universal suffrage and respect for political liberties (i.e., the freedoms of expression and association) to Schumpeter's criteria. We also run analysis with liberal democracy (see Diamond, 1999) as the dependent variable to capture checks and balances, access to justice, and respect for individual liberties, since these features figure prominently in some theoretical arguments in the literature. Regarding the second understanding, we consider inequalities in the actual political power distribution, including political participation. This perspective reflects Dahl's process criteria, which basically demand that all adult members of society should have equal and effective opportunities to vote, make their views known, achieve enlightened understanding, and choose whether and how matters should be placed on the agenda. Accordingly, 'political inequality occurs when the preferences of some are systematically afforded more weight in the political process than others' (Polacko, 2022: 1).

In this way, our approach suggests that quality of democracy is relevant only in cases that meet the criteria of a baseline concept, i.e., minimalist democracy, but that it can take different values depending on the degree to which thicker understandings are met, i.e., polyarchy, liberal democracy, and substantive political equality (cf. Munck, 2014).

Theoretical arguments

Democracy is not the same as economic (or social) inequality. If this were the case, the relationship would be true by definition. However, they can be intertwined in various ways. While there are structural factors that may link the two, it is also worth considering different societal groups' preferences for democratic quality. We consider the two groups of arguments in turn.

Structural factors

The well-off have the capabilities to exploit their economic power to skew the political playing field. Limited suffrage, where restrictions referred to property, income, or taxation, was historically a tool often used by the elites to keep the masses from political influence. No countries with competitive elections uphold significant suffrage restrictions for adult citizens anymore. However, economic inequality can also harm the quality of the other dimensions of polyarchy. Larry Diamond (2008: 293) puts forward that 'Blatant inequalities in power and status cumulate into vertical chains of dependency and exploitation, secured by patronage and coercion.'

Following this logic, media freedom is undermined because the rich can use their resources to silence criticism – either by concentrating ownership in their own hands, bribing journalists or judges, or convincing the government to introduce legislation and measures that restrict free speech and alterative information. The elite can indirectly exploit their power through the establishment of a cultural hegemony, where economic resources are used to influence popular opinion via education and media. The impact of resource asymmetries can also more directly support of some ideological objectives over others. One obvious example is imbalanced funding of electoral campaigns or threats by capital owners to move production and finances to other countries if particular policies are put on the polit-

ical agenda. In support of this perspective, a number of studies have demonstrated that parliaments are more responsive to rich constituents (e.g., Persson and Sundell, 2023).

In all parts of society, powerful actors can abuse their resources to undercut the strength, independence, and integrity of democratic actors and institutions. According to Terry Karl (2000, 148), severe economic inequality in Latin America goes hand in hand with a situation where ‘powerful economic and political elites have bent laws to their bidding, enfeebled courts, violated rights, corrupted politicians, and run roughshod over constitutions and contracts.’

Marxist scholars have continuously emphasized these and related problems (e.g., Althusser, 2020; Gramsci, Hoare and Smith, 1971; Luxemburg, 1986; Poulantzas, 1978; Streeck, 2016), but also non-Marxist studies have addressed how economic inequality can translate into political inequality because wealth concentration put elites in a better position to pursue their political goals (e.g., Dahl, 1985; Lindblom, 1977).

It has been argued that increased concentration of wealth makes the stabilizing middle class shrink, and this is problematic because it, according to some scholars, is the principal bearer of democratic ideals (Lipset, 1959). And when the popular demand for democracy declines, the elite supply of democracy is expected to decline as well. Along similar lines of argumentation, inequalities in wealth and income have been linked to social divisions, turmoil, and resentment (see, e.g., Lakoff, 2015; Przeworski, 2019). For example, Robert Reich (2013: 127) has argued that ‘widening income inequality ... gives fodder to demagogues on the extreme left and right.’

Some argue that such trends are driven by decreases in the trust levels of ordinary citizens vis-à-vis fellow citizens, political leaders and parties, as well as public authorities. According to Oren Levin-Waldman (2016, 204; see also Putnam, Leonardi, and Nanetti 1993; Stiglitz 2012; Uslaner 2008), democracy

requires a measure of trust between people, and growing income inequality is said to threaten various groups, mainly those at the bottom, experience political alienation and perceive the system not to be fair. ... social capital is the glue that holds society together. If individuals believe that the economic and political system is unfair, the glue does not work and society does not function well.

A related strand of the literature has repeatedly emphasized economic inequality as a main determinant of populism, polarization, and radicalization; all these phenomena have been said to undermine democratic institutions due to lack of respect for political opponents and willingness to fiddle with the rules of the game. Competitive elections become zero-sum struggles where everything is at stake and no one dares to lose. In extreme cases, the lack of toleration and forbearance (cf. Levitsky and Ziblatt 2018) can even spur violence.

Preference for democratic quality

The arguments suggesting that inequality should reduce democratic quality are intuitively appealing, but there are plausible counter-arguments related to the preferences of different societal groups, which should also be taken into account. Ben Ansell and David Samuels (2018) propose that inequality might not undermine the democratic status of a country because elites are well served by democratic institutions. Democracies generally outperform autocracies in terms of protecting property rights (Knutsen, 2011) and provide a better background for technological development and improvements in human capital (Uberti and Knutsen, 2021). Hence, democracies tend to support a good business climate for the well-off. Even if they have to share a slightly larger share of the pie, the overall pie may grow enough for them to be better off economically.

Meanwhile, the economic elites also benefit from less risk of power abuse that can result in expropriation and undermine physical safety as illustrated by Putin's treatment of oligarchs. As argued by Daniel Ziblatt (2017), most people benefit from making democracy 'safe for elites' due to the many negative impacts, such as loss of freedom and security, following from autocratization. It is therefore not self-evident that the rich have an interest in undermining democracy, even if inequality is increasing.

It is even less evident that the middle class and the poor should have incentives to undermine democracy, even in times of high inequality. Although inequality may spur the emergence of populist leaders who sometimes serve the poor (and reduce democratic quality), there are strong arguments for why the poor – and the middle class – should still support high democratic quality. Simply put, the

reason is that higher democratic quality increases political equality. The people with relatively less income have a stronger political voice in more democratic societies. Thus, even if the poor (and the middle class) are not well off in unequal societies with high democratic quality, there is no reason to expect the situation to be better in less democratic settings (Meltzer and Richard, 1981; Ross, 2006). In light of these arguments, none of the large socioeconomic groups in society should have strong incentives to fight democratic quality, not even when inequality is high. Thus, inequality may not affect democratic quality at all.

Overall, there are theoretical arguments that point in different directions. Hence, an empirical investigation is warranted to assess the average effect of economic inequality on democratic institutions as well as substantive political equality.²

Empirical strategy and data

To examine the consequences of economic inequality for democratic quality, we run a series of OLS panel regressions spanning the period 1960-2020 and covering up to 132 democracies. Countries characterized by high and increasing inequality are likely to be different from countries with less pronounced inequality on a range of confounding characteristics. By including country-fixed effects in some of our specifications, we control for such unobservable time-invariant factors. Moreover, year-fixed effects are important, since inequality may also respond to global factors that affect all countries, including the influence of particular ideologies (cf. Piketty, 2020). To make the analysis as transparent as possible and to avoid the risk of post-treatment bias, we present a parsimonious baseline model that only controls for GDP/cap, which is widely recognized as the main standard control in the literature. To measure economic development, we use the latent GDP per capita estimation by Christopher Fariss et al. (2022) due to its wide coverage and based on the presumption that several sources increase reliability.

² Our summaries of already established theoretical arguments rather than the development of a novel coherent framework would not be Kees's cup of tea. Sorry about that!

To measure inequality, we rely on the Standardized World Income Inequality Dataset (SWIID, 9.1) by Solt (2020), which provides income inequality measures from 1960. Specifically, we employ the Gini coefficient for disposable income, which reflects differences in people's standards of living. Given its vast coverage and intuitive interpretation, we consider it the best available measure for our purposes.

To ensure that any results are not caused by idiosyncrasies in the Gini measure, we also run analyses with two additional income inequality measures, i.e., the total income allocated to wages, or 'wage share' from Knutsen (2015, based on INDSTAT2 data) and the share of income going to the top 1% of income earners from the World Top Incomes Database (see appendix for more information about the measures).³

To measure polyarchy and liberal democracy, we use V-Dem's Electoral Democracy Index and Liberal Democracy Index, respectively. They are constructed to capture the conceptual features outlined above (Coppedge et al., 2021). To delimit our democratic sample from autocracies, we only include countries that score 4 or above on the ordinal Lexical Index of Electoral Democracy (Skaaning, Bartusevicius and Gerring, 2015), which – in accordance with the Schumpeterian conception – means a country must at least have competitive elections.

Finally, we use two measures to examine whether economic inequality undermines political equality. V-Dem offers an expert-coded measure of 'power distributed by socioeconomic position', i.e., the 'extent to which wealth and income translates into political power' (Coppedge et al., 2021: 204). Another measure of political equality is electoral participation. It is the most vital form of preference articulation, because this is where ordinary citizens get a chance to influence directly the composition of the country's legislative bodies and government (Jensen and van Kersbergen, 2016: 116). We measure electoral turnout as the percentage (%) of the adult voting-age population who cast a vote according to official results (Coppedge et al., 2021: 72).

3 Please contact the authors for access to the appendix.

Table 1: Income inequality and democracy level

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Electoral democracy (polyarchy)				Liberal democracy			
Gini	-0.009*** (0.001)	-0.001 (0.001)	-0.000 (0.002)	-0.000 (0.002)	-0.011*** (0.002)	-0.003 (0.001)	-0.000 (0.002)	-0.000 (0.002)
GDP pc.		0.111*** (0.010)		0.004 (0.030)		0.134*** (0.012)		0.017 (0.039)
N	3377	3321	3377	3321	3377	3321	3377	3321
Countries	130	129	130	129	130	129	130	129
Country F-E	-	-	✓	✓	-	-	✓	✓
Year F-E	-	-	✓	✓	-	-	✓	✓

Notes: Standard errors clustered by country in parentheses. All independent variables lagged one year.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Results from global panel regressions

Income inequality and democracy level

Column 1 in Table 1 presents the results from a bivariate specification, which shows a significant negative relationship between the Gini coefficient and the polyarchy measure. Column 2 adds a control for GDP per capita, resulting in the relationship no longer being significant. Columns 3 and 4 show the corresponding specification adding country and year fixed effects. These specifications similarly do not reveal a strong association. Columns 5-8 present the results from specifications that employ the measure of liberal democracy. Again, there is a significant relationship in the bivariate model. However, once we control for GDP/cap and/or employ fixed effects, the relationship disappears.

The results are robust to alternative measures of inequality, namely, when we replace the Gini coefficient with the wage share of the total income (low wage share corresponds to high inequality as the well-off also receive income from assets, such as capital and land) or with the top percentile income share measure (see Tables A1 and A2 in the online appendix). We have also run regressions with the Gini measure and longer panels (5, 10, and 20 years) based on the idea that inequality's corrosive effects on democracy take time to accumulate and are only 'released' during major crises (cf. Treisman, 2020). These results are consistent with the main estimates in Table 1 (see Tables A3 and A4 in the appendix).

Overall, the empirical assessment suggests that there is no strong, significant relationship between income inequality on the one hand and democratic quality on the other. However, it is still possible that economic inequality affects substantive political equality.

Income inequality and political equality

Columns 1-4 in Table 2 show the baseline specifications with the measure of power distribution by socioeconomic position. They show a very different picture from the results in Table 1. Now, income inequality is consistently associated with a larger power concentration among the wealthy, regardless of the exact specification. Columns 5-8 repeat the exercise with the measure of electoral turnout

Table 2: Income inequality and political equality

	Power distributed by socio-economic position				Electoral turnout (VAP)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Gini	-0.043*** (0.008)	-0.025* (0.010)	-0.029** (0.011)	-0.029** (0.011)	-0.464*** (0.122)	-0.354* (0.151)	-0.900*** (0.247)	-0.905*** (0.248)
GDP pc.		0.285*** (0.087)		-0.103 (0.165)		1.465 (1.585)		3.315 (5.003)
N	3379	3323	3379	3323	999	992	999	992
Countries	132	131	132	131	121	120	121	120
Country F-E	-	-	✓	✓	-	-	✓	✓
Year F-E	-	-	✓	✓	-	-	✓	✓

Notes: Standard errors clustered by country in parentheses. All independent variables lagged one year.

* p < 0.05, ** p < 0.01, *** p < 0.001.

and show similar results. This result supports that rising economic inequality does indeed harm the equal weighting of interests.⁴

Concluding reflections

Our results indicate that, in general, economic inequality does not hurt the quality of democracy understood as the fulfillment of procedural-institutional check lists. This finding questions the dominant perspective in the literature and among the broader public. At least, it suggests that the relationship might be more complex and conditioned by other factors than what is often assumed.

However, our inability to reveal a significant relationship between economic inequality and democratic institutions does not necessarily mean that economic inequality is not at all a problem for democracy. If we focus instead on substantive political equality, economic inequality can still be important for how preferences are formed, who sets the political agenda, and whether each person receives equal weight in the decision-making process. On an individual level, the unequal distribution of resources may decrease the opportunities to participate in the democratic process as equals – or participate at all for that matter. Those lacking in wealth and income might not enjoy the same access to politicians and might have a higher risk of being neglected or discriminated against in processes of implementation. Our supplementary analysis of the relationship between economic inequality and the distribution of political power lends support to this perspective.

So in one way, our findings constitute a serious challenge to widely held assumptions, while they corroborate others. In general, changes in economic inequalities do not translate into improvements or declines in the institutional quality of democracy, but they influence the *de facto* distribution of political power.⁵

4 At this stage, some (including Kees) would request comparative case studies to corroborate the relationship. However, as Kees knows, this would be a very demanding exercise, so we leave this task for others to pursue.

5 Following Kees's recommendation regarding how not to undermine an entire article or chapter, the conclusion is rid of any potential (methodological) caveat or problem.

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